

Message Text

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TRSE-00 LAB-04 SIL-01 SAM-01 OMB-01 L-02 H-01 ABF-01

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INFO ALL EC CAPITALS 298

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TAGS: EFIN, EEC

SUBJECT: US RENEGOTIATIONS -- EC COMMISSION PROPOSES A COMPROMISE
ON THE BUDGET ISSUE

REF A) EC BRUSSELS 07222

B) BONN 01673

C) LONDON 01157

1. SUMMARY: THE EC COMMISSION UNANIMOUSLY DECIDED ON JANUARY 30 TO SEND TO THE COUNCIL OF MINISTERS A PAPER DESIGNED TO MEET THE UK'S REQUEST FOR A REDUCTION IN ITS EC BUDGET CONTRIBUTIONS. THE PAPER PROPOSED A COMPLEX SERIES OF FORMULAS TO BRIDGE THE MEMBER STATES' CONFLICTING POSITIONS. ITS BASIC PROPOSITION IS THAT UNDER CERTAIN STRICTLY DEFINED CONDITIONS THE COMMUNITY WOULD MAKE REPAYMENTS TO MEMBER STATES WHOSE SHARE OF PAYMENTS FOR THE EC BUDGET EXCEEDED ITS SHARE OF THE GROSS COMMUNITY PRODUCT. THE INITIAL REACTION OF THOSE COMMISSION AND PERMDEL OFFICIALS WE HAVE TALKED WITH IS BROADLY FAVORABLE. THEY BELIEVE THE PAPER ESTABLISHES THE BASIS FOR A COMPROMISE ON THIS HIGHLY CHARGED ISSUE. NEGOTIATIONS AMONG THE MEMBER STATES ARE STILL LIKELY TO BE DIFFICULT, AND MOST OBSERVERS DO NOT EXPECT A RESOLUTION OF THIS ISSUE UNTIL THE
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DUBLIN SUMMIT MEETING. NEVERTHELESS, THE COMMISSION'S UNANIMITY

INDICATES THAT THE MEMBER STATES WANT TO FIND A COMPROMISE WHICH WILL ENABLE THE BRITISH GOVERNMENT TO SUPPORT CONTINUED EC MEMBERSHIP IN THE FORTHCOMING REFERENDUM. END SUMMARY.

2. EC COMMISSION VICE PRESIDENT SOAMES TOLD AMBASSADOR GREENWALD THAT HE WAS PERSONALLY VERY PLEASED WITH THE COMMISSION'S PAPER AND PARTICULARLY WITH THE COMMISSION'S DECISION TO ADOPT IT UNANIMOUSLY. SOAMES THOUGHT THE PAPER WAS FAIR BECAUSE IT TOOK INTO ACCOUNT THE MEMBER STATES' CONFLICTING POSITIONS AND ATTEMPTED TO RECONCILE THEM WHILE PRESERVING THE COMMUNITY'S BASIC INTERESTS. SOAMES' VIEWS ARE CONFIRMED BY OTHER COMMISSION AND PERMDEL OFFICIALS. THE PAPER, FOR EXAMPLE, ALLOWS THE FRENCH TO MAINTAIN THAT THE PRINCIPLE OF "OWN RESOURCES" HAS BEEN PRESERVED WHILE AT THE SAME TIME MEETING THE BRITISH DESIRE FOR AN EQUITABLE SOLUTION. THE FRG'S DESIDERATA ARE ALSO TAKEN INTO ACCOUNT, I.E., ALL THE MEMBER STATES SHARE THE BURDEN OF REIMBURSEMENT COSTS, AND LIMITS ARE SET TO THESE COSTS. COMMISSION OFFICIALS BELIEVE THAT IF THE PAPER IS ADOPTED BY THE COUNCIL IT WILL BE ONE STRONG ELEMENT IN A BRITISH GOVERNMENT DECISION TO SUPPORT CONTINUED EC MEMBERSHIP. UK DELEGATION OFFICIALS BELIEVE THAT THE PAPER PROVIDES A BASIS FOR A SATISFACTORY COMPROMISE BUT CAUTION THAT A LOT OF TOUGH NEGOTIATING IS STILL TO COME. THE EC COUNCIL OF MINISTERS WILL CONSIDER THE PAPER ON FEBRUARY 10-11. MOST OF OUR SOURCES THINK, HOWEVER, THAT FINAL AGREEMENT WILL NOT BE REACHED UNTIL THE MARCH DUBLIN SUMMIT MEETING.

3. THE BASIS OF THE COMMISSION COMPROMISE IS A SYSTEM OF COMMUNITY BUDGET REIMBURSEMENTS TO MEMBER STATES UNDER STRICT CONDITIONS. THE COMMISSION HAD AN ARDUOUS DEBATE BEFORE FINALLY REACHING AGREEMENT. THE GERMAN COMMISSIONERS REPORTEDLY WANTED TO IMPOSE ECONOMIC CONDITIONS ON RECIPIENTS OF BUDGET REIMBURSEMENTS. IT WAS FINALLY AGREED TO IMPOSE NO CONDITIONS FOR AT LEAST THE FIRST THREE YEARS. THE GERMAN COMMISSIONERS HELPED TO MEDIATE THE DIFFERENCES BETWEEN THE UK AND FRENCH MEMBERS REGARDING THE APPLICATION OF THE CORRECTIVE MECHANISM. THE UK'S DESIRE TO HAVE IT APPLY AGAINST THE WHOLE BUDGET WAS FINALLY ADOPTED. THE POSITION OF THE FRENCH AND OTHERS, HOWEVER, WAS TAKEN ACCOUNT OF BY PLACING CEILINGS ON THE AMOUNT OF REIMBURSEMENTS AND BY MAKING REPAYMENT SUBJECT TO THE COUNCIL'S DECISION.

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4. DEFINING AN "UNACCEPTABLE SITUATION": THE COMMISSION'S PAPER SETS FORTH THREE ECONOMIC CONDITIONS WHICH MUST BE MET BEFORE A MEMBER STATE WOULD QUALIFY FOR BUDGETARY REIMBURSEMENT. THESE ARE (A) ITS PER CAPITA INCOME SHOULD BE LESS THAN 85 PERCENT OF THE AVERAGE FOR THE COMMUNITY; (B) ITS RATE OF GNP PER CAPITA GROWTH SHOULD NOT BE MORE THAN 20 PERCENT HIGHER THAN THE COMMUNITY AVERAGE; AND (C) THE RECIPIENT STATE SHOULD HAVE A BALANCE OF

PAYMENTS DEFICIT ON CURRENT ACCOUNT. UNDER THESE CRITERIA THE UK WOULD BE THE ONLY MEMBER STATE TO QUALIFY FOR REPAYMENT AT THIS TIME.

5. TRIGGERING THE CORRECTIVE MECHANISM: REPAYMENT WOULD BE TRIGGERED WHEN A STATE'S TOTAL GROSS CONTRIBUTION TO THE COMMUNITY BUDGET EXCEEDS BY AT LEAST 10 PERCENT ITS SHARE OF THE EC TOTAL GNP. THE CORRECTIVE MECHANISM, HOWEVER, APPLIES TO ONLY TWO-THRDS OF THE TOTAL DISPARITY BETWEEN THE BUDGET AND GNP SHARES. A SLIDING SCALE WOULD DETERMINE HOW MUCH OF THIS ADJUSTED DISPARITY WOULD BE REPAID. FOR EXAMPLE, IF A MEMBER STATE'S BUDGETARY CONTRIBUTION SHARE IS 10 PERCENT MORE THAN ITS SHARE OF THE GROSS COMMUNITY PRODUCT THE EC WOULD REIMBURSE ABOUT 40 PERCENT OF THE EXCESSIVE CONTRIBUTION. HOWEVER IF THE BUDGETARY CONTRIBUTION IS 30 PERCENT MORE THAN ITS SHARE OF THE GROSS COMMUNITY PRODUCT, THE EC WOULD REIMBURSE 66 PERCENT OF THE EXCESSIVE CONTRIBUTION. COMMISSION OFFICIALS ESTIMATE THAT ON THE BASIS OF THIS SYSTEM THE UK WOULD RECEIVE ROUGHLY 270 MILLION U.A. (\$325 MILLION) FOR THE 1978 CONTRIBUTION. THIS PAYMENT WOULD COME FROM THE EC'S GENERAL BUDGET.
GREENWALD

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6. TWO ADDITIONAL RESTRAINTS ARE TO BE APPLIED. FIRST, REPAYMENT

MAY NOT EXCEED THE AMOUNT OF THE POTENTIAL NET FOREIGN EXCHANGE LOSS THAT WAS CAUSED BY THE BUDGET DEFICIT. THIS IS AN OBLIQUE WAY OF SAYING THAT THE AMOUNT OF REIMBURSEMENT SHOULD BE BASED ON NET CONTRIBUTIONS, I.E., GROSS CONTRIBUTIONS MINUS BUDGETARY RECEIPTS. COMMISSION OFFICIALS EXPECT THE UK TO BE A NET CONTRIBUTOR FOR THE FORESEEABLE FUTURE. SECONDLY, REIMBURSEMENT SHOULD NOT EXCEED THE COUNTRY'S PAYMENT UNDER THE VALUE ADDED TAX (OR, PENDING IMPLEMENTATION OF THE VAT CONTRIBUTION SYSTEM) ITS DIRECT NATIONAL CONTRIBUTION). BRITISH SOURCES HERE DO NOT EXPECT THE VAT RESTRAINT TO SERIOUSLY LIMIT THE REIMBURSEMENT AMOUNT. THIS FORMULA ALSO IN PART MEETS THE FRENCH INSISTENCE THAT CUSTOM DUTIES AND AGRICULTURAL LEVIES SHOULD NOT BE INCLUDED.

7. IMPLEMENTATION: ONCE THE CRITERIA DESCRIBED ABOVE HAVE BEEN APPLIED, THE EC BUDGET COUNCIL WOULD STILL HAVE TO TAKE AFFIRMATIVE ACTION EACH YEAR TO IMPLEMENT THE CORRECTIVE MECHANISM. THE BUDGET COUNCIL, WHICH FUNCTIONS BY A WEIGHTED MAJORITY VOTE AND WHICH IS NOT A POLICY MAKING BODY, WOULD PRESUMABLY BE GUIDED BY THE OBJECTIVE CRITERIA PREVIOUSLY ADOPTED BY THE COUNCIL OF MINISTERS. THIS PROPOSED PROCEDURE, OF COURSE, WILL BE SUBJECT TO CLOSE SCRUTINY BY THE EC COUNCIL.

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8. ECONOMIC CONDITIONS: IF A COUNTRY RECEIVES REPAYMENTS FOR THREE CONSECUTIVE YEARS, THEN A SITUATION OF "CHRONIC DIVERGENCE" WILL POSSIBLY EXIST. IN SUCH A CASE, THE EC WILL EXAMINE THE SITUATION AND TAKE APPROPRIATE MEASURES TO OBTAIN "COMMUNITY SOLIDARITY". THIS LANGUAGE IS INTENTIONALLY AMBIGUOUS AND PAPERS OVER A BASIC DISAGREEMENT WITHIN THE COMMISSION OVER THE ISSUE OF ATTACHING ECONOMIC CONDITIONS TO BUDGETARY REIMBURSEMENTS. THE CORRECTIVE MECHANISM IS TO OPERATE FOR AN INITIAL PERIOD OF SEVEN YEARS. IN ORDER TO AVOID A PUBLIC ROW WITH THE BRITISH, THE COMMISSION DECIDED TO SUGGEST A THREE YEAR GRACE PERIOD BEFORE TAKING UP THE ISSUE OF IMPOSING CONDITIONS. COMMISSION OFFICIALS SAY THIS PROPOSAL IS DESIGNED TO IMPROVE THE CHANCES OF REFERENDUM VOTE.

9. WE ARE TRANSMITTING A COPY OF THE COMMISSION'S PAPER BY AIRGRAM.GREENWALD

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